

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)	
)	
Price Cap Performance Review)	CC Docket No. 94-1
for Local Exchange Carriers)	

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**REPLY COMMENTS OF
MFS COMMUNICATIONS COMPANY, INC.
REGARDING PRICE CAP-RELATED COMPETITION ISSUES**

MFS Communications Company, Inc. ("MFS"), by its undersigned counsel and pursuant to the Commission's *Order on Motion for Extension of Time*,¹ in the *X-Factor Notice of Proposed Rulemaking*² hereby respectfully submits these Reply Comments³ in the above-captioned proceeding.

Broadly speaking, price caps regulation is a mechanism designed to emulate the price changes that would occur if price caps regulated firms operated in a competitive environment. In a competitive environment, changes in prices naturally reflect changes in costs, but non-competitive markets require regulatory mechanisms like prices caps to assure that cost changes

¹ *Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, DA 96-138 (released Feb. 6, 1996).

² *Price Cap Performance Review for Local Exchange Carriers*, Fourth Further Notice of Proposed Rulemaking, CC Docket No. 94-1, FCC 95-406 (released Sept. 27, 1995).

³ MFS submitted initial Comments on December 11, 1995 and Further Comments on January 16, 1996.

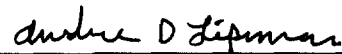
are reflected in prices. Fundamentally, the X-factor debate is about the degree to which price caps regulated firms would pass through productivity-driven reductions in their costs if they functioned in a competitive environment.

The comments in this case illustrate the practical and conceptual difficulties of measuring productivity changes in a hypothetical competitive market. Clearly, comments also illustrate that there is no industry consensus on the X-factor. Obviously reflective of their self-interests, local exchange carriers (LECs) and interexchange carriers (IXCs) present scholarly analyses and attempt to construct compelling arguments to support either a small X-factor or a large X-factor. Regardless of how many studies are performed there is simply no objective way to determine the “right” X-factor in a competitive market that does not yet exist. Indeed, when the Commission established LEC price caps it recognized this by offering LECs a choice of two X-factors -- LECs that picked a higher X-factor were rewarded with lower sharing requirements, and conversely, LECs that picked a lower X-factor were required to share proportionally more excess earnings.

Given the purpose of price caps regulation and the practical difficulties of developing price caps parameters like the X-factor, MFS recommends that the Commission focus its efforts on ensuring the development of actual competition as outlined in the checklist contained in MFS’s Further Comments in this proceeding. MFS believes that efforts to promote the development of actual competition will do far more to ensure that LEC price changes reflect productivity changes and cost changes than could the most well intentioned, academically rigorous X-factor calculation. In addition, with the passage of the Telecommunications Act of 1996 Congress indicated that promotion of competition throughout all segments of the

telecommunications industry is the nation's preeminent telecommunications policy. MFS's checklist of actions to promote competition presented in its Further Comments is entirely consistent with that expression of national policy. MFS recommends that Commission actions to promote actual competition -- like the checklist in MFS's Further Comments -- rather than efforts resolve artificial debates about the "right" X-factor should be the Commission's focus in this proceeding.

Respectfully submitted,



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Dated: March 1, 1996
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CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of March 1996, copies of the foregoing FURTHER
REPLY COMMENTS OF MFS COMMUNICATIONS COMPANY, INC.
REGARDING PRICE CAP-RELATED COMPETITION ISSUES, CC Docket 94-1, were sent
via First-Class mail, postage prepaid, or Hand-Delivery ** to the parties on the attached service
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